

Message Text

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ORIGIN NEA-10

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TO AMEMBASSY ISLAMABAD NIACT IMMEDIATE

C O N F I D E N T I A L STATE 109558

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E.O. 11652: GDS

TAGS: EFIN, PK

SUBJECT: PAKISTAN DEBT RESCHEDULING

REF: A) STATE 107221 B) ISLAMABAD 4171 C) ISLAMABAD 4172

1. CONTENTS OF REFTELS NOTED AND APPRECIATED. WE DO NOT BELIEVE THERE IS AS WIDE A DIVERGENCE OF VIEWS AS REFTELS MAY SUGGEST. ONE OF THE CARDINAL POINTS MADE IN DECISION WHICH LED UP TO PREPARATION OF REF A WAS THE NEED TO HANDLE THE GOP DEBT RESCHEDULING MATTER IN SUCH A WAY AS TO AVOID EMBARRASSING PAKISTAN GOVERNMENT NEEDLESSLY.

2. AS WAS STATED IN REF A, ITS IMPORTANT TO RECOGNIZE THAT GOP HAS NOT YET MADE ITS CASE FOR DEBT RESCHEDULING
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TO ANY CREDITOR. ON BASIS OF INFORMATION AVAILABLE, THERE IS NO EVIDENCE THAT GOP IS ON VERGE OF IMMINENT DEFAULT OF CONSORTIUM DEBT OR HAS CASE BEEN MADE WHEN DEFAULT LIKELY TO OCCUR. ON APRIL 29 IT IS UNLIKELY GOP WILL PROVIDE THE DETAILED INFORMATION ON ITS FUTURE BUDGETS, DEVELOPMENT PLANS, AND POLICY INTENTIONS THAT WILL ENABLE CONSORTIUM MEMBERS TO FULLY UNDERSTAND AND BE COMPLETELY SYMPATHETIC

TO PAKISTAN'S DEBT RESCHEDULING PROBLEMS. THIS SITUATION WILL PLACE CREDITORS IN AN AWKWARD POSITION AT JUNE 2 MEETING REGARDING HOW THEY CAN BEST RESPOND TO THE GOP

REQUEST AND, IN TURN, PLACE GOP IN EMBARRASSING POSITION OF NOT FULLY JUSTIFYING ITS CASE TO CREDITOR SATISFACTION.

3. WE PREFER TO EXAMINE THE BOP SITUATION IN CONTEXT OF ITS LONG-TERM POLICY COMMITMENTS AND DEVELOPMENT STRATEGY. WE DO NOT BELIEVE SUFFICIENT INFORMATION CAN AND WILL BE MADE AVAILABLE TO SYSTEMATICALLY ADDRESS THE GOP DEBT PROBLEM IN THOSE TERMS ON JUNE 2. NOTE THAT THIS IS FOURTH TIME IN SIX YEARS THAT WE HAVE BEEN ASKED TO RESCHEDULE GOP DEBT AND IT IS OBVIOUS TO US THAT A LONGER RANGE EXAMINATION OF THE COUNTRY'S ECONOMIC AND PAYMENTS SITUATION IS REQUIRED. THEREFORE, WE PLAN TO SEEK CONSENSUS AMONG AS MANY CONSORTIUM COUNTRIES AS POSSIBLE TO AVOID ADDRESSING THE ISSUE UNTIL LATER IN THE YEAR AND AT A TIME WHEN GOP CAN PROVIDE DETAILED PICTURE OF ITS DEBT SITUATION AND RELATED MATTERS.

4. HOWEVER, IT MAY WELL BE THAT MAJORITY OF OTHER CONSORTIUM COUNTRIES WILL BE PREPARED TO RESPOND ON JUNE 2. WE HAVE NO PROBLEM IN SITTING IN MEETING WHERE GOP WILL STATE POSITION FOR DEBT RESCHEDULING. SINCE USG WOULD
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NOT BE ABLE TO AGREE TO DEBT RESCHEDULING AT JUNE 1-2 MEETING, LEADER OF U.S. DELEGATION WOULD, AS SUGGESTED IN REF A, NOTE WE DO NOT BELIEVE A CASE HAS YET BEEN MADE THAT PAKISTAN HAS AN ACUTE DEBT SERVICING PROBLEM. HE WOULD ALSO ACKNOWLEDGE UNCERTAINTIES REGARDING POLICY COMMITMENTS, DEVELOPMENT STRATEGY AND PRESENT AND MEDIUM-TERM EXTERNAL PAYMENTS POSITION OF GOP, AND INDICATE OUR WILLINGNESS TO EXAMINE THE MERITS OF PAKISTAN'S CASE FOR DEBT RELIEF AT A LATER DATE WHEN MORE INFORMATION WOULD BE AVAILABLE.

5. FYI: FOREGOING EXPLAINS ECONOMIC REASONS FOR OUR NOT WISHING TO PARTICIPATE IN GOP DEBT-RESCHEDULING EXERCISE AT THIS TIME. OVER AND ABOVE THE ECONOMIC GROUNDS PROVIDED ABOVE, OF COURSE, IS THE NUCLEAR REPROCESSING ISSUE AND HOW IT RELATES TO THE GLENN AMENDMENT. LEGALLY, THE GLENN AMENDMENT DOES NOT APPEAR TO BE APPLICABLE WITH RESPECT TO DEBT RESCHEDULING. HOWEVER, THERE IS POLICY QUESTION OF WHETHER PROVIDING DEBT RELIEF TO A COUNTRY NOT ELIGIBLE TO RECEIVE U-S. ASSISTANCE WOULD BE APPROPRIATE AT THIS TIME. HOPEFULLY, BY POSTPONING GOP DEBT-RESCHEDULING EXERCISE UNTIL LATE IN YEAR, GLENN AMENDMENT

WILL BE BEHIND US.

6. MISUNDERSTANDING OCCURRED AT TIME TREASURY GAVE ITS CLEARANCE ON FOREGOING MESSAGE. WE SUBSEQUENTLY UNDERSTOOD THAT TREASURY WISHES INCLUDE ADDITIONAL SENTENCE,

BUT WE WERE UNABLE TO REACH TREASURY CLEARING OFFICER AFTER HOURS. DUE TO TIME FACTOR MESSAGE IS BEING TRANSMITTED SO THAT EMBASSY MAY HAVE IT BEFORE APRIL 29 MEETING DISCUSSED IN REFTEL. TREASURY COMMENT WILL BE PROVIDED ASAP.

7. RE SEPTTEL REFERRED TO IN STATE 107221, MESSAGE WAS TRANSMITTED WITH PRIORITY INDICATOR ON APRIL 28. VANCE
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